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CONTENTS

<i>Certain Aspects of the Economic Position of Great Britain.</i>	
By Dr Per Jacobsson	I
<i>Views on an Effective Credit Policy.</i>	
By Professor Erik Lundberg and Bengt Senneby	6
<i>Why Do People Buy?</i>	
By Professor Olof Henell, The Swedish School of Economics, Helsinki	15
<i>The Economic Situation</i>	20

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CERTAIN ASPECTS OF THE ECONOMIC POSITION OF GREAT BRITAIN

BY PER JACOBSSON

The following text was prepared as notes for a fairly short talk given in London on the economic position of Great Britain, before the recent intensification of the conflict in the Middle East. Although account has now to be taken of several new factors, it is believed that some of the points made in these notes will still be of interest.

There is, of course, no difficulty in explaining why people all over the world are interested in economic conditions in Great Britain, and especially the position of sterling. After all, sterling serves as the medium for between 40 and 50 per cent. of all international settlements; when people use a currency to so great an extent in their daily transactions they are naturally anxious to know what is its true value. Precisely because sterling is so widely used, it has become a "key currency" — that is, a currency to the movements of which other currencies are, to a greater or lesser extent, linked. If it is desired to make progress in the monetary field — whether one calls the goal convertibility or gives it some other name — there is not much that can be done in a general way without a strengthening of the position of sterling.

Under these circumstances it is, of course, rather disturbing that there should have been in recent years a succession of periods of strain during which sterling has been under pressure on the foreign exchange markets. In view of the great efforts made in Great Britain to maintain a sound budget policy and of the determined application of flexible credit policies by the monetary authorities, it has been considered somewhat astonishing that Great Britain has not fared as

well on the foreign exchange markets as a number of other countries.

Since the strains which have developed have been most spectacular in the field of foreign exchange and have thus been connected with the balance of payments, it is natural to consider, in the first place, to what extent Great Britain has maintained its capacity to export. Although figures are often published showing that the British export trade has not expanded at the same rate as that of some other countries it can be said that, by and large, there have been no protracted deficits on the current account of the British balance of payments in the postwar period; and as for the current year, i. e. the ten-month period up to the end of October 1956, there is every reason to believe that there has again been a current surplus in Great Britain's favour. Moreover, it is reported that the export figure for October was the highest ever attained.

Since these data are fully analysed in the daily press and in weekly and monthly reviews, it seems more useful to review a fairly extensive period in order to find out what have been the *long-run changes in the British export trade*. A consideration of developments in the present century shows that over the last forty years there has been a very important shift in the composition of British exports. As everybody knows, Great Britain used to be a great exporter of coal and cotton, which were the mainstay of the country's foreign trade. In 1913 exports of coal and cotton yarn and fabrics accounted together for 32 per cent. of British exports, but by 1955 the corresponding figure was only 3 per cent. Coal,



as we know, has fallen on evil days and overseas countries have put up their own factories to manufacture cotton goods — quite apart from the growing competition from artificial fibres. Fortunately for Great Britain, the place previously occupied by coal and cotton has been taken by *a group of new export articles consisting of machinery, vehicles and chemicals*. Together these items accounted in 1955 for 46 per cent. of British exports, as compared with barely 17 per cent. in 1913. The British people have thus been able to make the grade in developing their engineering industries and thus to retain their place among the most progressive modern economies. In the post-war period there has been strong demand on the world markets for the products in question, and though the British may not have accomplished all they had hoped for in these fields they have certainly secured for themselves a fair share of the demand for these new products.

In the field of mechanical and electrical products, only a small number of countries are net exporters — in order of importance according to the volume of their net exports these countries are the United States, Great Britain, Germany, France, Switzerland and Japan. It is possible that the U. S. S. R. will also become a net exporter of these products, but as no detailed statistics of Russian exports and imports are available one is left in the dark, especially with regard to Russian exports to China and certain other eastern countries. It seems that very few countries are able to produce good machinery; considering the research and the quality of the workers needed for the manufacture of products of this kind, the already highly developed countries of western Europe can hardly fail to retain a leading position in these lines of production. Apart from machinery, there is a whole range of further commodities for the manufacture of which very specialised techniques are necessary. Naturally the countries in question must see to it that their technical education is of a high standard and must also bear in mind that many kinds of modern inventions have resulted from, and could only have resulted from, highly abstract reasoning. The social standing of the engineering profession will likewise play a rôle when it comes

to attracting able young men to these particular occupations. In this respect Great Britain has probably been somewhat behindhand, but there may have been a certain change in recent years.

In modern products the importance of the value added in manufacture is continually increasing, while that of the cost of the raw material as a rule steadily declines. It is significant in this connection that over the last twelve or eighteen months, a time of intense boom on both sides of the Atlantic, there has been no rise in the sensitive price indexes for world-market materials.

As far as raw materials and foodstuffs are concerned, the imports of western Europe are now not quite as cheap, in real terms, as they were in the 1930s (at that time, however, the primary producers were not being adequately rewarded for their efforts). But, although more expensive than in the 1930s, these imports are at present cheaper, in real terms, than they were before the first world war.

A factor of great importance has been the way in which modern techniques provide substitutes for certain materials: aluminium instead of copper; artificial fibres instead of cotton; synthetic rubber side by side with natural rubber — and so on. A big new import item, on the other hand, is oil; and the very large amounts already paid for such imports are bound to increase as the years go by. Fortunately it is in the interest of the oil-producing areas, from an economic point of view, to sell their products to the West, and these areas will presumably become increasingly important buyers of articles produced in the West, thus providing markets for all kinds of goods.

For the highly industrialised countries the invention and production of substitute materials has been, on the whole, a favourable development; but it has meant that production and trade have recently expanded at a more rapid rate within the group of highly developed countries, while there has been a relative decline in the trade between the highly developed countries and the producers of primary commodities. The problems which arise in this connection will undoubtedly have to be studied most carefully in the future, and it is not unreasonable to hope that a solution will be



found which does not interfere with the freedom of commercial transactions. The highly developed countries will presumably have to make their contribution to such a solution, remembering that recent developments as regards production and price trends have been largely to their benefit. It is interesting to note that the highly developed countries have also succeeded in distinctly improving their output in the agricultural sector; several countries in fact, including Great Britain, have been able to increase the volume of their agricultural production by fully 50 per cent. since the 1930s.

All this, it may be said, is doubtless true — but in that case what are the reasons for the repeated crises which Great Britain has had to face?

A war leaves many grave difficulties in its wake — not only physical damage but also widespread disorganisation together with a *mass of burdensome financial liabilities*. Great Britain, which had to bear the brunt of the war, became particularly heavily burdened with debts — internal debts, sterling liabilities, foreign loans. One dangerous feature of a large volume of indebtedness is that floating or maturing liabilities can usually be fairly easily monetised, i. e. turned into active purchasing power. That creates problems for which various different solutions have been found. In western Germany, for instance, the old debts were written off by direct cuts, all liabilities in Reichsmarks being wiped out to the extent of 92 per cent. by decisions of the occupying Allied Powers. Another means of wiping out debts has been far-reaching inflation. In Italy, for instance, before Professor Einaudi took the situation in hand in 1947, prices had risen to over fifty times their former level, which meant that pre-war and wartime debts were almost wholly wiped out.

Quite apart from the injustices involved, either of these two methods has its disadvantages — for heavy losses are not easily forgotten and will therefore usually make it particularly difficult to re-establish an effective capital market. There is therefore something to be said for a *less radical and slower process of adjustment*, such as the one which has been tried in Great Britain, for in

this case it may be possible to maintain more confidence in the currency. But in such an adjustment process each step, either in the monetary or fiscal field, will as a rule be objected to by some group or groups and will consequently expose the government in power to political criticism. *It usually takes a crisis to make the authorities carry on with the good work* in spite of the difficulties; and for this very reason a crisis plays an important rôle and can be said to be of real value when, for instance, it leads to the introduction of a flexible monetary policy (as in 1951—52) or to control of hire-purchase financing or to new budget measures, such as the abolition of subsidies, the rearrangement of local-government borrowing, etc. It is, of course, disagreeable for the authorities to be faced with recurrent periods of strain, as they have been in Great Britain over the last seven years; but these vicissitudes have not been suffered in vain, for some useful measures have in fact been taken in both the monetary and fiscal fields. Further measures have been announced: the government has submitted a bill providing for a far-reaching relaxation of rent restrictions with a view to their total abolition in the fairly near future. Such measures will not only help to absorb part of the remaining liquidity and to increase the flexibility of the economy but will also make it possible for house-owners to contribute by their own savings to the financing of house construction.

It seems now to be generally recognised that *measures of monetary policy have made a valuable contribution to the restoration of balance*. In Great Britain there has been a certain slackening of demand at home combined with not only an expansion in the volume of exports but also a slowing-down of the increase in prices on the domestic market; in fact, during the greater part of 1956 retail prices have been almost stable.

Part of the aim of British monetary policy has, of course, been to prevent bank advances from rising, which has not been an easy task in view of the banks' large holdings of Treasury bills, which could be allowed to run off, thus providing the banks with the funds necessary for the granting of more credits. But through a combination



of higher interest rates and admonitions by the authorities a check was imposed on increases in bank advances. Even well-informed persons were, however, somewhat surprised to hear the Governor of the Bank of England, Mr Cobbold, say in a speech at the dinner given by the Lord Mayor at the Mansion House on 9th October 1956 that "the total of clearing-bank advances is now slightly lower than it was just five years ago". Five years ago there was no doubt a surfeit of liquid funds in the British economy; now, after the rise in the gross national product and the application of a strict credit policy, the remaining excess must be much smaller, if there is any at all. In fact, there are an increasing number of signs which indicate that the economy is fairly close to being in equilibrium, but this is not quite enough for Great Britain to obtain a sufficient surplus on the current account of the balance of payments to cover investments in the Commonwealth and drafts on sterling balances. While the emphasis must still be, as Mr Cobbold said, on "savings, funding and economy", recent measures have undoubtedly brought about a substantial improvement. One must not regard the present strict credit measures as entailing the sacrifice of the more permanent interests of the country for the sake of attaining momentarily a high degree of monetary stability. An immediate revival of industrial investment on such a scale as to lead to a recurrence of balance-of-payments difficulties would surely be short-lived. It has been the experience of many countries that without firm confidence in the currency there can be no steady and purposeful growth in industrial investment.

It is when difficulties arise that it is of particular importance that the domestic economy should be in equilibrium. *Monetary policy, as at present applied in Great Britain and some other countries, has probably contributed all that it usefully can in the existing situation.* There remain the tasks of improving the budgetary position and guarding against excessive cost increases. In his last budget speech the Chancellor of the Exchequer, Mr. Macmillan, emphasised the need for further cuts in government expenditure, indicating a figure of £100 million; with regard to cost increases, attention is concentrated at the

moment on the current wage negotiations. It is said in the New Testament that "therefore, let him that thinketh he standeth, take heed lest he fall", and the state of equilibrium recently achieved must, of course, be carefully safeguarded.

It may be of interest to look at the British economic problem from a somewhat different angle. The Swedish economic historian, the late Professor Eli F. Heckscher, once defined a great economic power as "a country which attracts business". There is international competition for new business firms. In the past — let us say before 1913 — Great Britain was an attractive country in which to establish business firms, for it provided excellent transport and banking services and was also a fairly cheap country adhering to the principle of free trade — which suited many producers. Taxation was moderate and confidence in the currency complete.

Some of these advantages remain: ships move to all countries of the world and British banking services are still very good; the pound is widely used for international payments. In some other respects, however, Great Britain has undoubtedly become less attractive than it was. There is, in particular, the high level of taxation. It is dangerous to get out of line in this respect with other countries competing in the same fields — and what must be considered here is not only the taxation imposed on the firms themselves but also the taxes payable by the managers and other personnel, many of whom have to be brought in from abroad. It is, after all, up to the people concerned to decide where a firm is to be established. There is, of course, also the question of the level of industrial costs, but if further large cost increases can be avoided it would seem that the heavy burden of public expenditure and the resultant high rates of taxation are the most serious problem for Great Britain.

These problems are, of course, only too familiar to the British themselves. It is not for a foreign observer to claim that he has some wonderful new ideas to propound, for these matters have been so fully discussed in the country itself that the British know very well what their situation is. But it may be that a non-resident can look at



problems from a somewhat different angle than that taken by the British themselves. Perhaps it will be useful for me to have pointed out that the many crises which have affected the British economy have been part of a necessary phase which the country had to go through in order to ensure that those measures would be taken which

were required at that particular stage of the slow process of adjustment. There are, of course, many problems affecting the British economy which have not been touched upon in this relatively brief review, but it is felt that the aspects referred to above are of considerable importance.



VIEWS ON AN EFFECTIVE CREDIT POLICY

BY PROFESSOR ERIK LUNDBERG AND BENGT SENNEBY, MANAGER'S ASSISTANT,
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A summing-up of views

In Number 3 of this periodical for 1956 we attempted to show why and in what way the restrictive credit policy pursued during the past two years is out of keeping with rational norms, how it has, in various respects, the effect of weakening the credit market's ability to function and how it consequently tends to divert investments from their proper channels. Our analysis of the causes of the inability of the capital market to function properly drew attention primarily to the Government's control of the banks' lending operations, involving the rationing of credit in various forms and the maintenance of relatively "firmly pegged" interest level and interest structure. In the article the final conclusion was drawn, in very general terms, that it was desirable to devise a monetary policy which, while being as restrictive as the present policy, would not be so rigid in those respects and thus would not have the same disruptive effect on the ability of the credit and capital markets to function.

The following discussion on the possibility of producing — within the reasonable bounds of what is politically acceptable — a more flexible yet restrictive monetary policy is based on the analysis made in our article of the defects inherent in the present system. It was pointed out that there is no simple and clearly defined relation between the volume of the commercial banks' outstanding loans and the development of demand and prices in the business sector. From this it was concluded that it would be unreasonable to permit at longer range — after the first short-term shock — the development of the banks' credit accommodation to continue to serve as a guide for the country's monetary policy. Since

the summer of 1955 the commercial banks' outstanding loans (excluding housing credits) have — as was explained in detail in the article quoted — been in a way both a means and an objective of the policy, involving during certain periods a reduction of the total outstanding loans and at other periods a low ceiling for advances.

Since it is the function of the banks, as well as of other credit institutions etc., to transfer savings from various categories of private income earners, business firms etc. with a surplus of savings to other categories with a deficit of savings, the results of this mediatory activity in the form of outstanding loans become largely a function of the distribution of these surpluses and deficits — and this distribution has, generally speaking, very little to do with the real aims of economic policy; attaining general economic balance and maintaining a stabilized value of money. On the contrary, there is reason to believe that a control of credit policy aiming at reducing or keeping constant the banks' outstanding loans tends to cause instability in the relation between investments and savings, which may lead to a misdirection of investments.

Some examples

The following examples may be taken to illustrate the problem. Suppose that, while what may reasonably be described as a balanced economy is maintained, a substantial redistribution of business profits takes place, e. g. as a result of export firms' being favoured by a pronounced selling boom, while at the same time various branches of industry on the home market are exposed to competition on the part of importers that tends to depress the market. In the short run



— say, for a year — the expenditure on investments is assumed not to undergo any radical change; a slight increase in the export sector is assumed to be offset by an approximately equivalent reduction in the home-market sector. If, in the simplest case, each sector prior to the cyclical change has been, on an average, self-financing in regard to its investment expenditure (i. e. this being adjusted to the gross profit after payment of taxes and dividends), the redistribution of profits will mean that the former sector gets a substantial surplus of savings (gross profit after payment of taxes and dividends over and above current investment expenditure), while the latter sector finds itself saddled with a corresponding deficit of savings. The maintenance of a balanced economy presupposes that the surpluses of savings are transferred via the banking system and the capital market from the export sector to the home market sector. Consequently, if this is done to any considerable extent by way of the commercial banking system, then the maintenance of equilibrium between savings and investments will *require* that bank credit shall increase. In such a case even a considerable increase in advances need not entail any inflationary tendency; the increase in advances merely brings out what from the point of view of stabilization is the quite irrelevant fact that the amount of savings required for financing an unchanged volume of investments has become unevenly distributed over the firms as compared with the investments. Not even in this simple case is there any definite relation between the shift in the distribution of savings out of profits in relation to the distribution of investments on the one hand and the development of the banks' deposits and advances on the other. An indeterminable part of the transfer of savings takes place via deposit accounts; the savings deficit in the home market firms may be covered by means of previous surpluses that have accumulated on different banking accounts. Besides, direct credits between business firms and borrowing on the capital market in different forms may considerably influence the need for bank credit. Considering the often substantial changes that are constantly taking place in the distribution of business savings

in relation to the investments, and if we further take into account the fact that in reality there are no sectors of business firms possessing the uniform characteristics outlined above, the fact that the original position is never so simple as in the example and, moreover, the fact that a number of other events occur concurrently, it must clearly be quite irrational to conduct monetary policy with a certain development of the banks' advances serving as a target.

The same reasoning holds good for cases in which a redistribution of savings in relation to investments — with its attendant consequences in regard to the need for bank credits — is primarily caused by changes in propensities to save and to invest. A reduction in the expenditure on investments within groups of firms — because, for instance, they have completed large-scale programmes of expansion — may entail substantial increases in those groups' surplus savings, while at the same time other groups of firms find that, owing to increased investment expenditure, they have heavy deficits over and above current savings. Shifts of this kind are constantly taking place, and the increases in deposits and advances reflected in the commercial banks' handling of surplus savings manifestly need have nothing to do with inflationary tendencies. Similarly, provided general economic balance is maintained, an increase of private income earners' savings, accompanied by higher investments in the business sector, should result in credit accommodation through the agency of the banks or other institutions on the capital market. Insofar as the growth of saving takes the form of deposits in the commercial banks, an increase in bank credit that covers investment expenditure on the same scale as the reduction in expenditure on consumption should not have the effect of upsetting the balance in the economy. An analogous argument holds good if personal saving has increased in importance thanks to a redistribution of income which implies, e. g., a relative rise in wage earnings at the expense of company profits. If the expenditure on consumption were to remain stable and personal saving were thus to increase in a corresponding degree, then, provided investments are constant, the deficits in savings in the



business sector can be financed by means of credit accommodation from the banks without the economy's becoming unbalanced.

A whole range of variations on these cases is clearly conceivable, but the conclusions will be the same. Bank advances as a *balancing item* in an extremely complicated process of equalizing savings and investment surpluses between firms as well as between different sectors of industry and commerce cannot — other than in exceptional cases of theory — be a criterion of the effect of credit policy on the economic balance. In actual fact, it may even be asserted — and this is borne out by the above arguments — that a successful anti-inflationary policy that manages to force down inflationary profits and bring about an increase in private savings could very well be accompanied by a rise in bank advances.

Distorting effects of a control of bank advances

In all the cases discussed above a ceiling on bank credits and, still more, a prescribed *reduction* of the sum of outstanding loans tend to produce instability. Under these circumstances, higher surpluses of savings — whether due to lower expenditure on investments or on consumption in different sectors of business firms and of income earners — do not *automatically* result in compensating increases in investment expenditure. Undesirable accumulations of stocks may arise; perhaps the "gaps" left by the absence of any needed increase in investments owing to the control of lending have to be filled out by higher public expenditure. A credit policy of this kind is bound in the long run to bring about a distortion of investments — distortion in the sense of forcing down the fixed investments in the private sector, chiefly in industry and commerce. To the extent that the direction of the income earners' demand is not adjusted accordingly, the consequence will be, apart from slowing down the rise in productivity, additional strains on the balance of payments.

One more immediate consequence of the monetary policy now being pursued is that it seriously reduces the ability of the credit and capital market to function adequately. As was shown in our

previous article, the restrictive effects of the present credit policy on the volume of business investments at short sight are apparently offset by an accelerated rate of turnover on deposit accounts and by credit accommodation granted on a rising scale elsewhere than from the banks. Buffers are available to deaden the short-term shocks, so that investment programmes in hand can very largely be carried out in spite of the severe credit restrictions. Owing, however, to the prevailing credit conditions on top of the very high and recently increased taxes, business firms are bound to take a pessimistic view of their financing possibilities at longer range.

One important consequence of the increasing difficulties in the way of financing their business and the ever-growing uncertainty as to whether they will be able in future to cover investment expenditure with bank loans or other borrowed funds is that firms are being compelled to a far greater extent than before to fit in their investment expenditure within the scope of their estimated self-financing possibilities. This tendency has been evident during the post-war years. According to the statistics on profits compiled by the Central Bureau of Statistics, during the period 1950—55 the annual current gross savings of nearly 700 industrial companies, which account for about two-thirds of industry's total investment expenditure, exceeded, on an average, current investment expenditure (including the book value of increases in stocks) by one or two per cent. It should be observed, however, that the self-financing ability of industry as a whole conceals heavy surpluses and deficits respectively in the savings of different firms and groups of firms. Thus, according to the report for 1955 the "deficit firms" accounted for about 85 % of the investment expenditure, whereas the gross saving shown by these firms amounted to only 44 % of the investment expenditure accounted for. It should be added that the firms in question could cover nearly 40 % of the savings deficit in 1955 out of a savings surplus accumulated during the years 1950—54. A substantially enhanced tendency on the part of *each one* of the private firms to increase their degree of self-financing may mean postponing planned investments until a sufficient



amount of their own funds have accumulated, and adjusting investment expenditure to whatever sum current gross savings will allow. In cases where and insofar as this is possible in view of foreign competition, the firms' lines of production and their price policy will tend to be determined to an increasing extent by the need for meeting investment expenditure out of their own funds.

The capital and credit market's deficient ability to function

The result of the tendencies indicated above towards a higher degree of self-financing in the business sector — apart from the direct repercussions on productivity of an all-round weakening of the propensity to invest within that sector — entails a lowering of the ability of the credit and capital markets to function. The large proportion of the community's total gross savings which business savings represent will become less mobile. Such saving as is effected is reserved for investment in the saving firm itself — within wide margins quite irrespective of alternative possibilities of making investments producing higher yields. In this way a substantial part of the savings tends to become segmented and is kept in more or less watertight compartments. This tendency of the flow of savings to become split up and "compartmentalized" enhances the strong segmentation of the Swedish credit and capital market which already exists, and which has become intensified in recent years. The institutional arrangements are largely designed to organize the capital market into a "system" whereby savings are canalized in certain forms and through certain institutions. The regulation of the banks' lending implies a considerable intensification of their credit-rationing activities, with low flexibility as a consequence; here, too, old-established business connections and regard for safety in various respects tend to induce considerations of "order and justice" at the expense of functional ability and competition.

The inability of the split-up credit and capital markets to function properly is ultimately determined by the rigid and insensitive "mechan-

isms" whose function it is to assist the passage of savings from their various sources to their use for investment purposes. The flaws in the mechanism are to be found on both the demand and the supply side. On the demand side the profit-earning possibilities in the innumerable fields of use to which savings can be put for different kinds of investment in different spheres of industry and commerce do not effectively come under consideration in a way that comes close to a system of free competition. On the supply side, various forms of control and rationing mean that the machinery of price fixing is put out of gear; interest rates and other lending conditions are strictly controlled or pegged by agreements and are very far removed from the actual market situations. They are, moreover, indeterminate in consequence of a disintegration that follows from the absence of effective competition. The less efficiently the credit and capital markets function, the less fully and the more slowly can the possibilities of increasing productivity be exploited. In addition, there are the cases discussed above, in which saving does not result in productive investments at all.

An ideal picture

We should of course be putting a highly theoretical question if we posed the problem of how a *perfect* credit and capital market should function. Nevertheless some sort of dim conception of an ideal picture always lies behind any criticism of the imperfections of reality. These imperfections are revealed in a sharper light if they are put in relation to the picture of an ideal which, consciously or unconsciously, arises in the critic's mind. At the same time we get a starting-point for a discussion on ways and means for establishing a better system. We think, therefore, that it might be worth while indicating in a few words the outlines of an ideal picture of the Swedish credit and capital market.

One essential quality in a perfectly functioning capital market would be its *uniformity*. Savings effected during the year should, as far as is feasible, be passed on to a common market, in which supply is weighed against demand. This



would imply, among other things, that business firms' self-financing capacity is reduced by stiffer price competition, while at the same time the need for self-financing diminishes when there is an *assured* supply of savings — at a price. Banks and other credit-providing bodies have to *compete* for savings — this competition aiming at supplying what are, from the point of view of marginal return, the best investment projects and at giving savers the highest possible yield on the money they put by. All this means that the strong elements of rationing that exist nowadays in the business of lending and the segmentation of the credit market are eliminated and are replaced by an effectively functioning price — i. e. interest — structure. In a system of this kind the level of interest rates is determined by the relation between the supply of and the demand for savings. A general interest level that may possibly be considered, from prevailing points of view, to be relatively high is under this system the outcome of, *inter alia*, the good possibilities of making high profits from investments in private business. Naturally, there must be different kinds of credit and capital markets to cope with short- and long-term loans, investments involving risk and safe investments, dissimilarities in institutional forms by which savings are provided with outlets, and so on, but there should be a close inter-relation between these markets via free and effective possibilities of substitution. Special stress should be laid on the importance of permitting interest rates for short-term loans to vary freely compared with those applied to long-term loans. For instance, during the initial stage of an inflation the interest rates for short-term loans should be allowed to rise faster and more than the long-term rates for bonds — this for the purpose of inducing correct anticipations on the capital market that the scarcity of funds is temporary and will cease as soon as the inflationary tendency has been eliminated. Such a combination of raised interest level and changed interest structure should result in a *postponement* of investments.

One essential point to note is that, thanks to the very fact of a free credit and capital market system operating more or less automatically, interest rates will be raised at an *early* stage of an

inflationary boom. One mistake of the credit squeeze of recent years was that it was started at least a year too late, so that it had to be unnecessarily drastic. If interest rates — primarily those on short-term loans — are allowed to rise sufficiently rapidly and to a sufficient extent at the very beginning of a boom that shows clear inflationary symptoms, before an all-round surplus demand has had time to get under way, then it *may* be possible to apply a brake that is both gentle and effective. The purport of this obviously highly hypothetical conclusion is that the level of interest rates must be raised so high and the interest structure must be modified in such a way as to arrest the tendency of investment expenditure to exceed the savings engendered at given prices and out of given incomes.

It should be observed that most of the investigations made showing the manifest lack of effectiveness in these respects of higher interest rates actually relate only to periods in which the interest level remained considerably *below* the level of equilibrium to which the above reasoning refers. A very slight effect produced by raising a too low interest level that still remains too low, involving the retention and perhaps even an intensification of the rationing of credit, actually tells us nothing about the possible effect of the same rise of interest rates in a situation in which the credit, capital and commodity markets are in the kind of balance we have indicated above. Fortunately there exist no time-series statistics covering any such hypothetical situation, nor any such results of interviews, that could weaken our conviction that, under competitive market conditions, the raising of the level of interest rates has a high potential influence on both investments and savings.

Positive arguments in favour of freer credit and capital markets

The ideal picture we have painted here may seem — unrealistic as it is — to lie far too removed from what is practically realizable to serve as a guide for effecting improvements in the actual system of monetary policy. Apart from the more or less surmountable difficulties met with



in practical politics in the way of establishing a free system of this type, it would appear that the most "decisive" arguments against any approach to this solution refer to the order of investment priority, dictated by social motives, that would be seriously upset, at the same time as the general interest level might be intolerably high. However, this type of argument, which is being constantly brought up in support of central investment planning and a strict control of the capital and credit markets, need not be regarded as decisive even by radical advocates of a planned economy. The ideal picture would not be disrupted in its essentials if the Government, by taking adequate measures of fiscal policy, were to ensure that a sufficiently large portion of the country's savings were reserved for investments in housing, power plants, schools, hospitals, roads, and so on. The financing by means of taxes of the investment expenditure in question would be in conformity with the monetary policy *if* rents and the price of electricity were fixed with proper regard to the capital costs of a free credit market — and housing and electric plant construction were then permitted to adapt themselves to the demand that arose at those prices. Socially justified subsidies to people with low incomes granted via the Budget are bound from the standpoint of the effectiveness of the market to be far less disturbing than keeping the general levels of interest rates, rents and power prices low for social reasons. Actually, then, it does not follow that even a substantial raising of the interest level — probably also involving an interest structure quite different from that now prevailing — would *necessarily* mean favouring the investments of private business.

The main argument in favour of a freer credit and capital market is, in the first place, to bring about a more effective distribution of such savings as are forthcoming, with regard to existing possibilities of deriving productivity profits from new investments. Interest rates would probably be at a higher level than that prevailing at present — but, above all, the level would fluctuate more in the future than in the past and acquire a more flexible structure. Still, it is not certain that the interest level under freer market conditions would

lie very much above the present level (compare the situation in the U. S. A.). The picture of the perfect capital market also entails an assumption of more effective competition on the commodity markets. Business firms would not be obliged to the same extent as under the present system to keep their prices up and to avail themselves of monopolistic situations in order to procure funds for their investment expenditure. The possibilities of earning profits would be more rapidly and efficiently levelled out if the credit and capital markets functioned more after the pattern of a perfect market. It is conceivable, then, that the consequence of the suggested reformation of the credit and capital markets — in the sense indicated above — would be not merely a more rapid rise in productivity but possibly also a lower average level of profits thanks to a more effective ironing-out of the disparities in profits between firms and branches of industry and trade. We need not, therefore, be afraid of the consequences of the system being likely to lead to a more uneven distribution of income than at present, in favour of "the capitalists". On the contrary, the existing system, entailing too low interest rates (in the sense indicated above) and severe credit rationing, means that sectors with high profits are rather effectively protected from competition, at the same time as "hidden capital" accumulates in the hands of these protected corporations. Along the above lines of reasoning the conclusion may even be that — in the long run — the "real" interest level might become, on an average, lower under a system that permits of effectively functioning credit and capital markets than in a system involving a combination of credit and capital market control and too low nominal interest rates. The implications of a statement of this kind depend, of course, on the definition of the term "real" interest level; this concept should take into account the costs involved in obtaining capital funds outside the regular credit markets, and possibly also the real cost of an issue of shares.

Suggested paths to reforms

By what paths could the monetary policy conceivably be brought from the present situation



closer to a system providing for efficiently functioning credit and capital markets?

In a freer credit and capital market system the principles governing monetary policy should only have reference to the general aims of economic policy: full employment, stabilizing the value of money and balancing the foreign payments. How stringent in various respects the monetary policy ought to be in a given situation cannot be determined *a priori* by pegging certain factors such as bank loans and the interest level. The monetary authorities must to a large extent work by trial and error. In our ideal picture, with markets functioning to perfection, the central bank's direct functions were left out of account. Obviously, the capital market can never be free in the sense of its being independent of the central bank. The total supply of credit is always influenced by any measures which the central bank (and the Government) may adopt, and which determine the liquidity of the money market. A free credit market in the most extreme case means that the central bank controls the total supply of liquid funds by various methods, letting interest rates be fixed on freely functioning credit and capital markets. In this system there is always a supply of credit available, but at prices that are high enough to maintain balance between savings and investments — or, more correctly, at prices considered by the Riksbank to be properly adjusted for this purpose with due regard to the fiscal policy pursued.

Seeing that the institutional conditions and the way the Swedish credit and capital markets function are far removed from the picture discussed above, the paths towards a more effective credit policy must be sought along the line of compromise. The best should not be the enemy of the good. One of the essential aims of reforms is to create ways and means of more effective competition on the credit and capital markets. The banks and other institutions should compete for savings with greater effectiveness than is the case at present, and at the same time they should compete more actively for the would-be borrowers. The very substitution of the direct control of lending for a cash reserve regulation would mean a first step on the way to more competitive

conditions. In the examples described above, if rational cash reserve regulations were in force, those banks which had succeeded in getting more deposits would also acquire greater lending possibilities. Even if the cash reserve requirements were so severely imposed that the same degree of restriction of advances were attained as exists at present at a more or less unchanged interest level, a transition to a freer system would result in the apportionment of advances among the banks becoming more flexible and better adjusted to the deposits. However, there would only be some real sense in achieving this flexibility *if and when* it could be combined with a substantial reduction of the element of credit rationing in the monetary policy, i. e. if and when the credit terms are more closely adjusted to the relation between supply of and demand for credit. For this purpose it is required that the prevailing interest level shall be allowed to rise to a point nearer to a hypothetical state of equilibrium, and that the interest rates are permitted to fluctuate more freely according as the supply and demand relations for different kinds of credit change. How much the interest level may rise or fluctuate depends partly on how far the element of rationing is to be eliminated — quite perfect markets exist only in textbooks on economics.

According to what has been suggested above, cash reserve regulations instead of restrictions on lending would mean a step on the way to a freer credit market. This by no means implies, however, that cash reserve regulations are a *necessary* instrument in monetary policy. Strictly speaking, the central bank is able, by adopting measures to influence liquidity, with accompanying variations in the rates of interest, to achieve the desired effect on the economic development. The requirement of a cash reserve in excess of the banks' individual liquidity needs has not, however, merely aimed at influencing bank loans *in toto* but has also been designed to bring about a certain allocation of their credits.¹ From the point

¹ The terminology in this field is itself misleading. One speaks of »cash reserves» and »liquidity quotas» although, strictly speaking, those terms have nothing to do with liquidity. The essential purpose of existing cash reserve regulations is to arrive at a form of qualitative credit control; the banks are encouraged to grant increased credits to the Government and to the mortgage institutions at rates of interest a good deal below those in keeping with a true state of equilibrium.



of view of the desideratum expressed here for a uniform capital market, the drawing up of cash reserve regulations for this purpose would be inadequate. As has been emphasized above, the general priorities as to the distribution of investments should be attained by measures of fiscal policy. From those general points of view regarding the shaping of credit policy that have been discussed here, the main problem is not how the Riksbank's control of liquidity is conducted but how the consequences of changes in the liquidity of the commercial banks influence the credit and capital markets and thereby affect the general economic situation.

As has been stressed above, an effective and smoothly operating credit policy must be based on flexible interest rates. However, to achieve in our country an adequate degree of flexibility in this respect is fraught with considerable difficulty. The credit institutions' interest rates both on the deposits and on the advances side move as tardily as the discount rate of the Riksbank. On the deposits side the rates are fixed, to some extent, by agreement. On the advances side there is a large measure of freedom and variation according to differences in security, amortization period, etc., though here, too, the interest rates change comparatively seldom and within relatively small margins even when there are wide variations in the relation between demand for and supply of credit. This stability in the interest structure has in fact its obvious advantages thanks to the measure of security it affords to lenders and borrowers alike. Nor have the disadvantages been very conspicuous during earlier periods when there existed a good deal of flexibility in the price level and in the degree of employment. Now that we are so much more ambitious in the matter of the degree of employment, and at any rate the level of prices and costs shows no *downward* flexibility; far greater flexibility is required in the mechanism of the credit market. To be able to break with the tradition of slow-moving interest rates in our credit system (including the Riksbank) is not likely to be an easily solved problem; among other things, serious practical difficulties would stand in the way of achieving

a high degree of flexibility in the interest rates in a banking system with branch banking.

It may be possible to resolve the problem by creating, outside the banks, fairly effectively functioning security markets. Such markets might be able, as it were, to catch up variations in the supply-demand-relations for credit and thus give indications of the trends of interest rates on different kinds of credits. The banks' and other credit institutions' deposit and loan rates would then be gradually adjusted to these market rates of interest. Such security markets would preferably operate with "short" money. The Government, for instance, would be able to sell Treasury bills with suitably adjusted maturities and interest to business firms and private individuals. It is rare in this country for Treasury bills to be bought outside the banking system. Firms could obtain short-term capital by selling bills of exchange or bank acceptances to the public and to other firms. The creation of a system possessing a freer interest structure and offering greater competition on the credit market would be facilitated if firms did not have recourse exclusively to the banks as credit agents. Moreover, it would be useful from the point of view of an effective system of interest rate formation if the creation in Sweden of a more efficient capital market could be combined with a great deal more international mobility — this applying to both short-term and long-term capital.

This country possesses no effective market of the type discussed above. If we wished to form some idea of what the interest structure in this country looked like during different periods we should find it very difficult to do so. Short-term interest rates that are more or less fixed by the market do not exist at all, and the relations between the yield on securities with differing maturity dates are highly irrational. Another point that strikes one is the very small dispersion between short-term and long-term interest rates. It is frequently pointed out in theoretical discussion on the subject that when the demand for credit rises during a strong boom the short-term rates should undergo a far stronger rise than the long-term rates. This was not the case during the



booms in the 1920s, 1930s and 1940s. Fears lest the long-term rates would be affected to about the same extent as the short-term rates have probably been an important factor in the efforts made to keep the short-term rates pegged at a low level.

The relation between short-term and long-term interest rates may be illustrated by the following example. An industrial firm desirous of extending its factory establishments is able today to take up a loan in an insurance company (on the security of good mortgages) and must then pay about $5\frac{3}{4}\%$ in interest. If, however, the owner of the firm expects that in two years' time the interest level will have gone down by an average of 1% , it is worth his while to borrow at short term (6 months) from a commercial bank instead, even if he will have to pay for this accommodation as much as 10% . This example throws light on the well-known fact that during boom peaks the short-term interest rates may lie considerably above the long-term rates, and *vice versa* in a recession. At the present time a firm would probably have to pay interest at about $6\frac{3}{4}\%$ for a credit in a commercial bank. The difference between the insurance company's long-term interest and the interest rate on a short-term bank loan is thus only 1% . The difference should be far wider with a more effectively functioning interest structure in a credit system in which the rationing factor had been considerably reduced. Nor, in our view, is there any economic reason why during periods of strong inflationary tendencies one would hesitate to accept short-term interest rates as high as $8-10\%$.

A necessary condition for bringing about such pronounced changes in the short-term interest rates without this affecting the long-term rates to the same extent is a high degree of flexibility on the credit market, enabling borrowers and lenders to switch rapidly from one alternative to another for credits and investments. It is against this background that the need for an efficiently organized market for short money stands out conspicuously. Obviously, a credit market system of this type demands that such Government intervention as the Riksbank's strict control now being

exercised over bond and debenture loans shall cease. If the interest structure is to be utilized rationally as a rationing mechanism, not only is an efficient market for short-term loans required but also an efficient capital market allowing for the free movement of interest rates in accordance with the trends of the market.

Within the framework of a system providing for freer credit and capital markets than exist under present circumstances there would in fact be greater scope for "the art of central banking". There will be — to speak in the terms of economic theory — a larger number of, and more sensitive, parameters. The Riksbank will be in a position to choose between various combinations of measures to attain the desired degree of stringency or abatement by effecting changes in liquidity, level or structure of interest rates. As the machinery of the markets is gradually improved, any desired effect on the size and timing of the investments might be achieved with relatively small variations in interest rates. At the same time increased uniformity on the credit and capital markets and the consequent greater mobility of capital should afford better conditions than does the present system of distributing savings to the most profitable investments. As was shown in a preceding section, there would be no need to fear that the credit and capital markets, functioning to a far greater extent than at present according to market principles, would disturb Government priorities for public investments or have harmful social effects.

Ultimately it must be to the common interest, irrespective of political opinions, that in fields of activity that are, after all, run by private enterprise, this system should be working under conditions likely to produce the highest degree of economic efficiency. In this article we have attempted to suggest such conditions as refer to the working of the credit and capital markets. Starting out from the defects in the prevailing system, our aim has been limited to indicating the paths leading to an improvement. Only in a more indirect way has the article led up to recommendations for practical politics.



WHY DO PEOPLE BUY?

THE PRACTICAL VALUE OF MOTIVATION STUDIES IN MARKETING

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An economist had been asked to carry out a market research for an American group of manufacturers of men's hats who were greatly concerned because their sales had been steadily declining. This was due, they considered, to the fact that it was the fashion to go about bare-headed. This habit could be traced to the free and easy style of dress general among American college youth who were regarded as leaders of fashion in the United States.

The manufacturers in question had previously carried out market research in which the consumers were asked among other things *why* they did not wear hats to the same extent as formerly. The answers were "rational". The consumers stated, for example, that hats were expensive, and could easily be lost and that baldness could be caused as a result of wearing a hat.

The hat manufacturers considered that it ought to be possible to get men to see that they looked better and commanded more respect when wearing hats. Accordingly they launched advertisements which on the one hand showed a man wearing a hat, who looked well groomed and who had a girl with him and on the other hand a man whose hair was in disorder, who looked rather less well turned out and who was without a girl.

The economist in question was married to a psychologist. From her he got the idea that perhaps the motive which the consumers themselves gave was not the "right" one. What then were the "right" motives? In order to get an answer to this question he carried out a market research, but one with an entirely different technique, in accordance with which the consumers, so to speak,

projected their "inner selves" on pictures of people. Two different pictures were used. One of them showed a young man, normally dressed and wearing a hat. The other picture showed the same man in the same situation with the same clothes but without a hat. Each picture was presented to a selection of consumers, care being taken to see that the two consumer groups were as similar as possible. In this way the two different pictures were given an equal chance to exercise their appeal.

The method of questioning employed was based on determining how the consumers concerned characterized the man with a hat and the man without a hat. It proved that the man with a hat was considered to be a little too formal, a little haughty and not sufficiently relaxed in his appearance. His age was estimated on the average at twenty-six. The picture showing the man without a hat got a more favourable reception. The person in the picture was characterized as a modern young man who had probably had a college education and his age was given as about twenty-three, i. e. three years less than in the first case. From this experiment the conclusion was drawn that it was simply not up to date to wear a hat because to do so did not go well with the modern, more easy-going style of life and dress.

How should the results be turned into practice?

The next conclusion to be drawn was that the advertising which had been used earlier, in which stress was laid on the idea that to wear a hat was



socially desirable, involved a fallacious train of reasoning. From this, of course, several conclusions could be drawn in their turn, for example that the line of thought should be revised. However, the manufacturers decided in the first place to launch new types of hats of a less formal kind. They adopted new versions of the old straw hats, they introduced Tyrolean hats, etc. According to what we have been told, a considerably increased sale of hats has now been achieved.

Another example of what motivation research can lead to concerned the attitude to coffee in powdered form. Previously in market research the questions asked had been of the type: "Do you use Instant Coffee?" If the answer was in the negative, the next question was: "What is it you don't like about instant coffee?" To this practically everybody answered: "I don't like the taste." Now, it was suspected that there was something else lying behind this attitude. Another method was therefore used in order to get below the surface. This method was based on two shopping lists comprising ordinary foodstuffs, such as bread, meat, carrots, baking powder, peaches and potatoes. Two variants of this list were prepared, one of which included Nescafé instant coffee and the other Maxwell House coffee. The lists were identical except that in one case instant coffee was included and in the other case the traditional type of coffee. Each list was shown to a group of women which was entirely similar to that to which the other list was submitted. The procedure was in principle the same as in the case of the hats, the consumers having therefore to react unconsciously. They had to characterize the two housewives who made their purchases according to these lists. The result achieved was surprising — or at least seemed so in 1950, when the research was carried out. Thus, 48 per cent of the respondents described the woman who had bought Nescafé as lazy. Similarly 48 per cent considered that she had not planned her purchases well.

Only 12 per cent of those who had to characterize the housewife who had bought ordinary coffee considered that she was lazy. Four per cent described the "Nescafé" woman as economical, 16 per cent described the "Maxwell

House" woman as economical. 16 per cent thought that the "Nescafé" woman was not a good housewife. Nobody thought this about the woman who had bought Maxwell House coffee.

At the time when the research was carried out it could be regarded as unwise, on the basis of the results in question, to mention in the advertisements that it was easy to prepare instant coffee. This tended to give the housewife a feeling of guilt.

Motivation studies have also been used by the American *Tea Bureau*, which until 1951 had used the slogan "Nervous? Try Tea". When the motivation studies indicated that the advertising and the beverage were regarded as feminine the slogan was altered to "Make mine Hefty, Hale and Hearty", which it was hoped would put an end to the negative attitude.

In earlier days, advertising experts worked on an intuitive basis, and did not rely on what are now thought to be doubtful studies of surface attitudes. Quite apart from whether they appealed to something conscious or something unconscious they did in any case appeal to emotions. One can say that the taking into account of motivation research has meant a renaissance for psychological advertising. At the same time there has been a tendency to reduce the stress on "conspicuous consumption" where this has been overdone. Thus advertisements now seldom show wealthy-looking people drinking beer in luxurious surroundings. We do not see housewives beaming with joy because of the ease with which they can now do their washing. The tendency is rather to abide by the maxim: show the product and its consumption in surroundings which may be a little idealized, to be sure, but must not be too much so. As regards the housewife and her washing, the result of the motivation studies indicated that which she lacked most in her work in the home was sympathy and appreciation.

Is it then only private consumers who are "emotional" and react subconsciously? The *General Electric Company* in the United States claim that they have found that many engineers regard D. C. motors as old-fashioned and spend money on changing them over to A. C., which as a matter of fact is less efficient, especially with



automation. A firm which manufactured agricultural machinery found that the farmers liked bright colours on their machines if only they could be given a rational motive for this, for example that the colours made it easier to identify the different parts.

Purchasing motives in the wider sense

It is obvious that a purchase is connected with, "is caused by", many factors. Among the more obvious of these are the socio-economic ones, such as age, sex, income-bracket and class. Other factors of importance for the selection of goods, and of the same evident nature, are season, climate and weather. In addition to these, however, there are factors connected with psychology, including social psychology. Among the first may be mentioned temperament, intelligence etc., and among the latter, for example, ideas about fashion and all those characteristics in the individual that are created by his surroundings. Buying is of course also affected by advertising and other influences exerted by the business world as also by the "consumer information" which may be given in schools, in articles in newspapers, magazines etc.

The danger of stopping at the psychological surface

The foregoing examples have probably shown the reader clearly enough the dangers involved from the economic point of view in confining oneself to the study of surface attitudes and also of taking into account only functional factors. This, of course, is something that practical advertising and sales personnel have long known intuitively. When the so-called market research based on questions addressed to the consumers began to be generally employed about 20 years ago, it was based in a very high degree on "Why"-questions. It is certain that many businessmen have been misled by the answers to such questions, largely because these answers are dressed up in figures and have thereby often been given a scientific aura. All this, of course, does not

mean that certain "Why"-questions cannot give results of value. One may say that the more functional and factual consumption is, the greater is the significance attaching to the study of open attitudes. Correspondingly, the more factual and functional the properties of goods are, the easier it is for people to give "sound" motives for satisfaction or dissatisfaction.

The two examples described at the beginning of this article themselves tell us that the ideas are related to those launched by Freud about 60 years ago. We can, of course, get some guidance from such Freudian concepts as the "id", the "ego" and the "superego". No one today denies the existence of these different levels of consciousness. What we are now considerably more cautious about is drawing hard-and-fast distinctions between them.

The psychoanalytical methods as applied today to neurosis are distinguished by the fact that the patients, after being questioned by psychoanalysts for several hours a week over a period of years, get to know what is "pressing" on them. It has been discussed whether the relatively short contacts with individuals for investigating the sub-conscious which have come to be applied in modern motivation studies in connection with sales and advertising are of any real use. However, as is shown by the two examples given in the introduction, we can safely say that even short contacts may be of value.

To the method applied by Freud and his followers a more statistical procedure has been added in modern motivation studies. The investigators are aware that it is "qualitative" phenomena that they are studying but that the prerequisites for a reasonably firm grip on these is that a "quantitative" method shall be used. Usually the procedure is to calculate the reactions of a certain type and to compare them with a number of reactions of another type. Obviously some difficult problems of classification will arise here, but these are encountered in most investigations. The criterion of having classified correctly is simply that "experts" show agreement as regards classification. (Other methods may also be conceivable.)

The criterion of the value of the studies in



question, which for practical reasons must be based on relatively short contacts with consumers, is that reactions obtained shall prove better than the reactions obtained in another way. This question is in fact the central one in the whole problem and has several aspects which will be examined more closely below.

Psychometric technique

Psychology and social psychology are of decisive importance for the application of motivation research but it should be mentioned that it is psychiatry which has given the original impulse. Maladjustment can vary from slight neurosis to insanity without it being possible to say that there is any fundamental difference between the various stages. The specific psychometric technique which is used in this connection usually takes the following forms:

Depth interviews: The investigator asks questions which he modifies according to the answers and in this way probes deeper and deeper down into the subconscious.

Group interviews: Consumers who have shown interest in a certain product are brought together in order to discuss under a leader trained in psychology who, however, does not try to control the discussion too rigidly. The value of group interviews lies mainly in the interplay between individuals, which makes the level of consciousness lower than it would otherwise be.

Projective technique: The individuals are confronted with some symbol the meaning of which is not clear to them. The consumers then often show reactions which are revealing about themselves and of which they are quite unconscious.

At least in the United States there has been a somewhat heated discussion as to whether the individuals investigated for motivation should be representative of the mass of those to whom one is selling or advertising. In my opinion this problem is identical with that which arises in other investigations. It is obvious that we should try to get a representative sample of the mass which we desire to study. But it is not always easy to define exactly what "mass" we are trying to sell or advertise to. This problem however, is

not limited to motivation research. It is usually said, however, that in sample investigations — intended to show whether the method "gives results" in the special case and to try it out in detail — representativity is not necessary. Such an opinion, however, is not without its dangers.

The validity problem:

does the method measure the essentials?

Supposing that by motivation research we have arrived at the decision that a certain motivation is better than another, is it then certain that an advertising unit formed in accordance with the results will give better results than another unit?

This is the *problem of validity*. Several criteria can be used:

1. Does the result appear to be reasonable?

Such a criterion implies, many would say, an unscientific approach. On the other hand one should not discard it; if one has nothing else or cannot get anything else in a reasonable time or at a reasonable cost one has no choice. In the example of the hat advertisements and the hat manufacturers the results of the studies appeared highly plausible.

2. Do different experts arrive at the same interpretation?

This, so to speak, internal criterion has indeed one value: in any case one feels, and rightly so, more certain than if the interpretations do not agree. This is in the main as far as anyone has gone as regards validity.

3. However, the best criterion must be that the motivation in question shall indicate the best reasoning, packing, styling etc. of those at one's disposal. In other words: *if by means of a motivation study it has been found that a certain motivation is clearly predominant it should logically give better results in a practical sales test or other test.* Similarly one can conceive that one would compare the results obtained by motivation research with those obtained in another way, e. g. solely by creative advertising personnel, and with sales results. The motivation is therefore transformed into



an advertising argument and its ultimate value is determined by a market test.

Here, however, a considerable difficulty arises. The results obtained by motivation research can be expressed in advertising or sales ideas in a very large number of different ways. One can use words, pictures, sound etc. and one cannot be entirely sure that it is the basic idea which is decisive compared with, for example, the illustrations. What one can say is that if a certain idea obtained from motivation research gives a certain result, more or less independently of how it is formulated, the method has proved its value.

It is rightly objected in many connections that it may be of obvious utility to use surface motives as well. In fact those who write on the subject often emphasize that in the case of many goods the subconscious reactions, insofar as they exist at all, are of very little significance for the choice. The greatest importance of motivation research lies in the field where goods of the same type are sold under different brands, whose "quality", properties and price vary little — such as soap, petrol, cigarettes, many foodstuffs and beer.

The importance of psychological ideas for consumer economics

In post-war Sweden efforts have been made to provide more objective consumer information. This has meant that consumers in this country now have the possibility of obtaining objective data on a number of different goods. This has

been done in different ways, for example by *commodity declarations* (descriptive labelling), which can be said to be the most advanced form for giving objective information about goods. In this way the consumer can decide to what extent the commodity is suited to his special needs and can also judge the price in relation to the price of other goods.

It may be said that the demand for consumer information came as a reaction against advertising which gave little factual information about goods and often actually attempted to avoid comparisons with other goods. (Deficient knowledge is included as a factor in the modern theory of competition without all the theoretical economists therefore turning up their noses.)

However, modern motivation research has confirmed the experience earlier gained by practical businessmen, namely that in many respects consumers seem to attach less importance to the functional qualities of the commodity and instead lay the greatest weight on the psychological properties. One can now say with greater certainty that the goods (and their advertising) have very great importance as symbols, especially in the case of goods which are consumed in social situations.

The problem, of course, is extraordinarily complicated. But it seems to be a fact that consumer information and the satisfaction of psychological needs must take place simultaneously if businessmen wish to make further progress in conditions which are in any way similar to those now prevailing.



THE ECONOMIC SITUATION

The Swedish economic policy of restraint, which was made gradually more stringent during the past year, caused a noticeable dampening of the economic activity. However, this dampening cannot be said to have proceeded to the extent that it is possible to speak of a balance in the national economy at the end of the year. The picture presented by the business trend is still lacking in uniformity. In certain sectors there are manifest signs of a less accentuated tension between supply and demand, whereas to judge by appearances there remains in other sectors a more or less out-of-joint situation. The labour market is the sector showing the most unmistakable signs of balance. Also the investment sector presents indications of a slowing down. It is true that investments within the private sector continued to increase throughout last year, but investigations in the form of questionnaires evidenced that, at least in so far as the industrial sector is concerned, the increase was considerably less than planned at the beginning of the year. Moreover, the 1957 projects show a substantial reduction in the private sector's budgeted investments in machinery.

Production and Investments

Taken as a whole the industrial production in terms of volume seems to have gone up by only 2 per cent as against no less than 6 per cent from 1954 to 1955. Last year's increase refers entirely to the capital goods industries, the production of which rose by about 4 per cent, while the consumer goods industries present an almost unchanged volume of production. A characteristic feature of the picture is that those branches for the products of which there was a strong demand abroad showed the highest increase in output. Thus the output of the iron ore and metal in-

dustries increased by 7 per cent, the mining sector having attained an increase of no less than 10 per cent. The production of the pulp industries was also above the average, whereas that of the timber industries declined by 10 per cent owing to export difficulties. The production in the engineering industry appears to have increased by a not inconsiderably smaller percentage than in 1955.

The slowing down of the increase in industrial production would to a not inconsiderable extent seem to have its root in the economic policy, which, also during 1956, was to a high degree aimed at limiting private investments, partly by means of fiscal measures and partly by means of a gradual tightening-up of the credit policy.

The Institute of Economic Research estimates in its autumn report total investments, inclusive of expenditure for plant maintenance, to have risen in volume during 1956 by 2—3 per cent as compared with 1955, when the increase was somewhat less. The reason for this very noteworthy development is to be found in a comparatively remarkable increase in house construction. Housing start permits were last year granted for a sum, which by 6—7 per cent exceeded that of 1955. The number of dwelling units in started houses has each month almost without exception been larger than that for the same month in the previous year. Moreover, the average floor-area has been enlarged.

There is so far no possibility to render fairly correct statistical data on the size of the industrial investments during the past year. An investigation made by the Institute of Economic Research in October last seems to indicate an increase from 1955 to 1956; however, not to the extent planned by the industries in March 1956. Total private investments, exclusive of expenditure for plant maintenance, seem by way of an estimation to have risen by 3 per cent, that is to say, somewhat



more than from 1954 to 1955. As regards public investments, these are estimated to have been about unchanged in volume in so far as the government sector is concerned but to have increased by 2—4 per cent in the municipal sector.

The building permits granted by the Labour Market Board during the first three quarters amounted for 1956 to Kr. 1,500 million, a figure which is approximately 50 per cent above that for 1955. Out of this sum the private sector benefitted by about Kr. 600 million. Apart from the trade all the branches of business within the private sector have obtained a smaller share of the total permits than that in the corresponding period for 1955. As to the public sector, there was a very important increase in the granting of permits for the building of schools. In fact, the permits granted during the said period for such building purposes involve a sum of more than Kr. 300 million, that is to say, 20 per cent of the total grants.

The Labour Market

The tendency towards a balanced labour market, which was discernible already at the end of 1955, has been increasingly noticeable during 1956. The gap between supply and demand has contracted as a whole, although there is no uniformity in the manpower situation. Thus there is still a strong and unsatisfied demand for skilled workers. In connection with the rise of production within the export industries an increase in

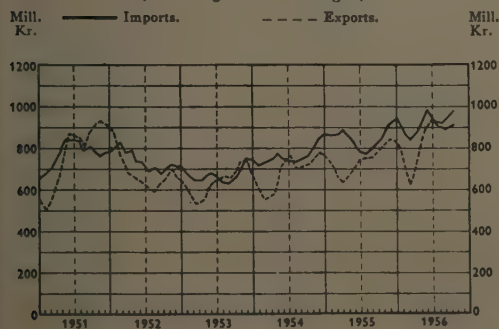
employment is thus generally ascertainable, whereas the demand for manpower is at a standstill within the sector, the products of which are mostly intended for the home market.

In spite of the weakened liquidity in trade and industry and the generally deteriorated profit outlook, the development of the wages has been surprisingly expansive. The co-ordinated wage negotiations last spring resulted in a wage increment of about 4 per cent, but the wage-drift, i. e. additional rates gradually paid above the contractual level, seems to have been of great importance. The hourly wages thus appear to have risen in all by about 7—8 per cent during 1956, an increase of the same extent as between 1954 and 1955.

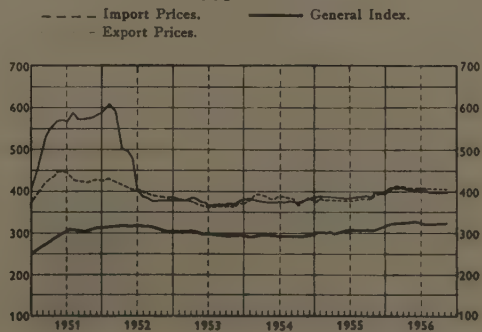
The Suez crisis resulted in lay-offs of workers within certain branches, particularly within the motor industry and its contractual suppliers. The lay-offs for the Christmas and New Year holidays were relatively extensive. In spite of the excise duty on cars and the tightening-up of the stipulations for payment of cars on the instalment basis the registration of cars rose in number last year at the same time as the car imports declined.

As a result of, i. a., the said lay-offs unemployment showed a very considerable increase in November as compared with the same month in 1955. Thus the figure of those applying for jobs was then 1.9 per cent as against 1.5 per cent in November 1955. Further, it was evident that the number of workers on short time had risen considerably.

Foreign Trade. (Million Kr.)
(Current 3-months averages.)



Wholesale Price Index of the Board of Trade.
(1935 = 100.)





The Foreign Trade

The foreign trade continued to grow during 1956 both in value and volume, but in comparison with 1955 exports showed a more favourable development than imports. The volume of exports rose during the first three quarters of the year by 9 per cent and that of imports by 5 per cent. As to the distribution of the trade by countries no particularly significant changes appear to have occurred during the year. However, the import surplus as against the EPU-area, exclusive of the Sterling countries, decreased, while that as against the dollar countries increased somewhat, a development which can be regarded as a natural consequence of the gradual liberalization of our imports from the dollar area in recent years.

The considerably smaller increase in the import volume as compared with 1955 may credibly be said to verify the opinion that the economic activity as a whole was dampened during 1956. In this connection it should be observed that one-tenth of the increase in the import volume during the first three quarters referred to agricultural products, a circumstance which was undoubtedly a consequence of the bad harvests in 1955. During the same period, moreover, the export of farm products showed a considerable decline. A somewhat more unfavourable relation between the import and export prices contributed towards retaining the import surplus at a high level. An occasional increase in the import of arms was also a contributory factor.

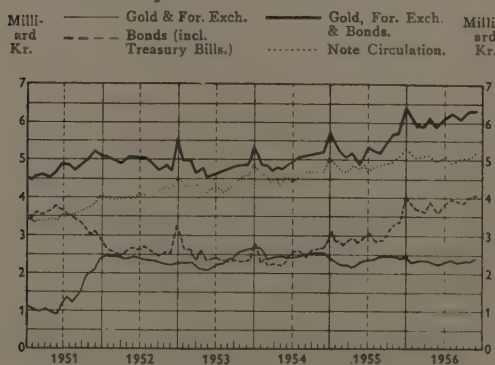
Imports Exports Import surplus
(Mill. Kr.)

Jan.—Nov. 1950	5 502	5 085	417
» » 1951	8 518	8 247	271
» » 1952	8 182	7 350	832
» » 1953	7 384	6 937	447
» » 1954	8 281	7 389	892
» » 1955	9 388	8 145	1 243
» » 1956	10 433	9 147	1 286

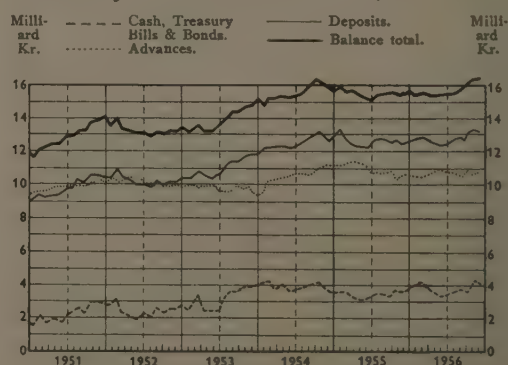
The steel imports have declined by 27 per cent for the first three quarters, probably due to a cutting down of the stocks to a lower level. In 1955 the import of iron and steel was abnormally large on account of a then extensive building-up of stocks. It would therefore seem that last year's import figure reflects the aforesaid check on economic expansion. However, the imports of machinery and technical equipment continued to increase. In terms of volume the increase was 10 per cent for the first three quarters as compared with the same period 1955.

1956 can be described as a very favourable export year. Wood goods and agricultural products presented the only weak point in the picture. The exports of pulp and paper increased. Moreover, the shipments of iron and steel, iron ore and engineering products show substantial increases in terms of volume, those of engineering products by more than 20 per cent. The increase in the exports of capital goods reflects the investment boom in other countries as compared with the reduced activity on the domestic market.

Position of the Riksbank. (Milliard Kr.)



Position of the Commercial Banks. (Milliard Kr.)





*Sweden's Trade with Various Countries
January—October 1955 and 1956.*

(In terms of value: Mill. Kr.)

	Imports		Exports		Balance of trade (Exports less imports)	
	1955	1956	1955	1956	1955	1956
Western Germany	1 863	2 060	962	1 110	-901	-950
Great Britain . .	1 146	1 262	1 426	1 456	+280	+194
United States . .	820	975	314	429	-506	-546
Netherlands . .	590	649	444	506	-146	-143
Norway	259	335	757	668	+498	+333
France	384	332	377	496	- 7	+164
Belgium	416	444	344	371	- 72	- 73
Denmark	283	307	434	460	+151	+153
Italy	239	273	212	259	- 27	- 14
Brazil	220	242	136	170	- 84	- 72
Switzerland . .	180	183	89	118	- 91	- 65
U.S.S.R.	122	177	56	106	- 66	- 71
Finland	51	66	156	197	+105	+131
Venezuela . . .	115	181	30	46	- 85	-135
Poland	93	123	76	65	- 17	- 58

An economic fact of great importance is that the balance of current payments for 1956 has shown a much smaller deficit than had earlier been foreseen. The import surplus seems to have exceeded that of 1955 only by about Kr. 20 millions in spite of the upward movement in import prices towards the end of the year. Moreover, the net shipping revenue and other invisibles may be estimated at a figure of Kr. 1,175 million, an improvement of Kr. 150 million. On the basis of these preliminary figures the deficit in the balance of current payments would seem to have been reduced from Kr. 400 million to Kr. 200 million.

The returns of the Riksbank and the com-

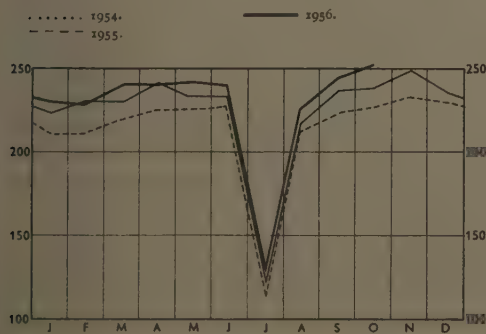
mercial banks disclosed as at the end of December an increase in the foreign exchange reserves by Kr. 214 million during 1956. In view of the constant deficit in the balance of current payments this is a noteworthy improvement which, however, is probably connected with changes in the tempo of payments to and from abroad, i. e. in relation to the trade statistics.

The Credit Market

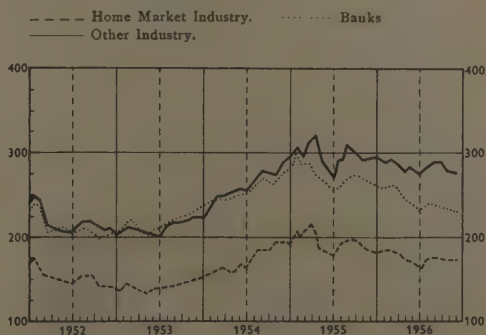
At the same time as industrial liquid resources declined during the past year, the commercial banks were requested twice over to display more restraint in their grants of credit. In addition to the earlier directives as to the liquidity proportion a new credit squeeze was brought about in the spring. Thus the banks were demanded to carry out before the end of August a 5 per cent reduction of the volume of their advances — exclusive of credits to the building sector — as at the close of July 1955. When this had been accomplished by a reduction of the order of Kr. 600 million, the Riksbank issued new directives to the effect that this lower level had to be adhered to. This reinforced policy of restraint made it exceedingly difficult for the banks to meet the seasonally rising credit demands in the autumn.

In face of the strain upon the Swedish economy which could be expected to be a consequence of the oil crisis, the Riksbank raised in November its discount rate to 4 per cent, and the National Debt Office decided to float a new 24-year 4 3/4

Production Index of the Federation of Swedish Industries. (1935 = 100.)



Share Index.





per cent Government loan with the right of conversion after 15 years from the issue date. Also this loan meant an increase of $1/4$ per cent in the general interest level. As a further argument in support of these monetary measures, the Riksbank stressed the expediency of giving an explicit danger-signal on the eve of the general wage negotiations.

The Position of the Commercial Banks.

	1955		1956			
<i>Assets</i> (in mill. Kr.)	Nov.	Dec.	Sept.	Oct.	Nov.	
Cash	575	958	460	604	561	
Treasury bills . . .	843	569	595	878	853	
Swedish bonds . . .	2 423	2 389	2 578	2 700	2 665	
Loans and advances	10 634	10 530	10 825	10 635	10 742	
Banks abroad . . .	384	386	514	588	549	
Sundry accounts . .	839	964	986	995	1 010	
Total	15 698	15 796	15 958	16 400	16 380	
<i>Liabilities</i> (in mill. Kr.)						
Deposits	12 531	12 609	12 738	13 184	13 038	
Banks abroad . . .	282	303	272	290	320	
Share capital and reserve funds . . .	1 165	1 210	1 203	1 238	1 238	
Sundry accounts . .	1 720	1 674	1 745	1 688	1 784	
Total	15 698	15 796	15 958	16 400	16 380	

During the year's first eleven months the total of advances was on an average quite a 3 per cent lower than that during the same period in 1955. The distribution of advances on various sectors of the economic life shows a pronounced displacement in favour of the building sector. In November more than 12 per cent of total credits were accounted for by the said sector as compared with 9 per cent twelve months earlier. The following table evidences the situation, that is to say, a reduced share of total credits for all sectors except the building and industrial sector; however, the increase in advances to the latter sector is very insignificant.

A comparison between the figures for May 1956 with those for November 1956 gives a very clear picture of the effect of the credit squeeze. Thus the advances to the building sector show a marked increase, whereas those to the industrial sector have been reduced by nearly Kr. 100 million, a development which means a decline in its share of total credits from 23.4 to 22.4 per cent. It has been possible to compensate to a certain

The Distribution of Bank Credits

(End of November figures)

	(Mill. Kr.)		%	
	1955	1956	1955	1956
Industry	2 274	2 326	22.1	22.4
Trade and services	2 449	2 401	23.8	23.2
Communications	360	338	3.5	3.3
Insurance and finance	276	227	2.7	2.2
Municipal authorities	114	111	1.1	1.1
Agriculture	411	402	4.0	3.9
Building and plant installations	953	1 260	9.2	12.2
Housing	2 519	2 446	24.5	23.6
Others	938	843	9.1	8.1

extent the reduction in the bank credits by, for one thing, an increase in the advances from the insurance companies, and, for another, share issues which were during the first half of 1956 on a considerably higher level than in 1955. As to the credits granted by the insurance companies, it should be observed that these credits have to some extent to be regarded as a substitute for bond loans, the issuance of which has not, at least in so far as the industrial companies are concerned, been possible during later years on account of the Riksbank's control. The credits are granted either in the form of mortgage loans secured by mortgages in factory plants or in the form of promissory notes. The total of such credits increased by approximately Kr. 60 million during the first ten months of the past year. As in the case of bond loans, it is naturally first and foremost the big and well consolidated companies that have found it possible to satisfy a part of their need for liquid means in the said manner. On the other hand, the smaller companies and the handicraft sector have experienced great difficulties in their endeavours to obtain credit. In order to remedy this anomaly to some extent the Government has presented a bill which will give the smaller enterprises a credit accommodation increased by about Kr. 30 million. This sum, however, is a very insignificant one. In fact, it is estimated to equal but about 1.5 per cent of total institutional credits outstanding in the small enterprises sector.

When judging the present position of Sweden's economy, one pays much regard to the trend of individual savings. An investigation into the visi-



ble development reveals that the deposits with the savings institutions increased in a comparatively faster tempo in 1956 than in 1955. This is true both in regard to the savings banks and the Post Office Savings Bank. The deposits on savings accounts in the commercial banks, which includes the so-called premium saving, have increased at an even faster rate. Also the capital accumulating deposit accounts, the deposits on which represent mainly individual savings, show a very heavy increase, although this increase may be partly due to transfers from other accounts. Moreover, the savings in the form of payment of insurance premiums appear to be expanding rapidly. In the first ten months of the past year new life policies were issued to an amount exceeding by 40 per cent that in the same period 1955. Whether or not this means a substantial increase in real savings, the tendency is clear. It is, however, difficult to judge whether the increase in institutional savings corresponds to an increase in total individual savings. According to preliminary estimations the income in the form of wages and salaries appears to have risen last year by somewhat above 7 per cent, whereas consumption did not increase in the same degree. These naturally very uncertain estimates would imply that the individual saving increased during 1956, even if at a slower rate than during 1955.

The Bond Market

The October issue of mortgage bonds and the new 4 $\frac{3}{4}$ per cent Government bond issue in November formed the all-dominant factor in the trend of the bond market during the autumn months. The subscriptions for the new Government bonds stopped at Kr. 200 million, a meagre result which would seem to reflect the strained position of the capital market.

As an immediate consequence of the aforementioned rise in the discount rate and of the communication on 23rd of November about the new Government loan, the prices for gilt-edged bonds dropped by 2—4 per cent on an average. In regard to certain loans there was a further downward movement in December. The market turnover has

been on a low level, probably on account of a lack of interest on the sellers' side.

During the year's first three quarters the amount of outstanding bonds rose by about Kr. 325 million to a total of Kr. 19,000 million. Mortgage bonds and municipal bonds in the amount of round Kr. 260 million and Kr. 150 million, respectively, accounted for the greater part of this increase. The total of Government bonds in circulation was reduced by Kr. 118 million. In the fourth quarter mortgage bonds were placed on the market to the extent of Kr. 150 million, and, as mentioned afore, Kr. 200 million were invested in the new Government loan. Two short-termed Government loans totalling Kr. 165 million were issued in September; however, this amount corresponded exactly to the total of a couple of earlier loans, which had been taken up by the Riksbank and the commercial banks and which were simultaneously redeemed. A further short-termed loan placed with the commercial banks was redeemed about the middle of December.

Out of the approximate sum of Kr. 650 million by which the total of bonds in circulation appears to have risen during the past year, an amount of about Kr. 400 million is covered by mortgage bonds. The net increase in Government loans showed a gain of round Kr. 70 million, which is a remarkably low figure. On the other hand, the Government's short-termed borrowing secured by Treasury bills rose by Kr. 850 million as compared with an increase of only Kr. 550 million in 1955.

The Stock Market

On the whole, the Swedish stock market displayed a more or less continual move downwards in the autumn months. A noteworthy feature of the picture is that the general elections and the uncertainty about the outcome of the negotiations about a continuance of the agricultural party's representation in the Government did not have any conspicuous reaction on the trend of prices. A setback in the prices quoted at the autumn's timber auctions caused later a declined interest in the shares of companies engaged in forestry at



the same time as the Suez crisis lead to an increased demand for shipping shares. Political developments abroad had little impact on the Stock Exchange, but an enhanced anxiety about the possibilities for the industrial companies to maintain the present level of production and profits did indirectly tend to subdue the sentiment. The rise in interest rates in the second half of November caused the prices, even if temporarily, to recede further, and they had at the end of November and in the beginning of December reached the autumn bottom level. The inflationary tendencies in the economy in spite of the restrictive policy which have been referred to in the discussions preceding the actual wage negotiations has contributed to maintaining the purchase inter-

est and the share prices at a comparatively high level. In the period covered by this review, only one bonus issue has been announced.

Bonus Issue

AB Turitz — 1 new share for every holding of 3 old shares, whereby the share capital will be raised by Kr. 15 million.

Latest announced dividends on shares in important companies give the following yield on the basis of the average of the prices quoted in the middle of December in the past few years: —

	1952	1953	1954	1955	1956
5 wood-processing companies	4.9	3.9	3.0	3.7	4.0
2 forestry and iron companies	4.1	3.6	3.0	4.0	3.8
5 exporting engineering works	5.9	5.7	4.2	5.2	5.3
4 leading banks	5.0	4.4	3.9	4.6	5.7



Some Statistical Data on Sweden's Economic Position.

I. THE RIKSBANK. (Amounts in million kr.)

At the End of	Gold and Foreign Exchange Reserves						Bonds and Treasury Bills	Advances	Note Circulation	Sight Deposits						
	Gold ¹		Foreign Exchange ²		Total					Total	Thereof					
											State		Comm. Banks			
1938	707		750		1 457		106	50	1 061	849		418		428		
1951	785		1 594		2 379		2 821	247	4 090	1 110		528		522		
1952	954		1 350		2 304		3 240	321	4 577	1 029		449		558		
1953	1 130		1 491		2 621		2 786	357	4 835	545		363		180		
1954	1 370		1 104		2 474		3 267	99	5 087	441		289		150		
1955	1 426		1 004		2 430		4 023	25	5 319	747		321		418		
	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956
Jan.	1 370	1 437	1 039	929	2 409	2 366	2 997	3 693	30	24	4 855	5 047	265	505	123	288
Feb.	1 370	1 405	973	961	2 343	2 366	2 953	3 626	59	23	4 793	5 014	247	514	144	333
Mar.	1 370	1 412	923	934	2 293	2 346	2 777	3 603	203	44	4 750	5 073	224	325	129	213
April	1 335	1 391	859	924	2 194	2 315	2 939	3 791	252	23	4 857	5 130	205	370	100	202
May	1 361	1 374	848	852	2 209	2 226	2 783	3 591	327	177	4 792	4 968	207	312	105	231
June	1 365	1 328	915	921	2 280	2 241	2 859	3 787	442	193	4 924	5 108	330	323	183	207
July	1 365	1 347	1 001	921	2 366	2 268	3 006	3 971	42	21	4 735	4 949	333	499	94	210
Aug.	1 365	1 358	1 046	891	2 411	2 249	2 866	3 944	68	20	4 775	5 047	327	357	106	105
Sept.	1 365	1 359	1 087	955	2 452	2 314	2 839	3 759	159	107	4 861	5 129	193	234	97	164
Oct.	1 395	1 369	1 096	960	2 491	2 329	3 210	3 959	29	22	4 924	5 235	391	248	106	85
Nov.	1 436	1 371	997	1 037	2 433	2 408	3 282	4 010	81	27	5 029	5 316	294	317	142	199
Dec.	1 426	1 376	1 004	1 072	2 430	2 448	4 023	4 390	25	21	5 319	5 598	747	504	321	260

¹ Market value. — ² Net claims on foreign countries.

II. COMMERCIAL BANKS. (Amounts in million kr.)

At the End of	Cash		Swedish Bonds ¹		Net Claims on Foreign Countries		Advances								Deposits			
							Bills		Loans		Overdrafts and Other Advances		Total		Total		Thereof Short Term	
1938	601		190		95		1 163		2 705		470		4 338		4 260		1 152	
1951	936		1 849		— 492		2 694		5 801		1 680		10 175		10 513		2 626	
1952	999		1 716		— 131		2 506		5 674		1 668		9 848		10 358		2 618	
1953	646		3 345		95		2 568		5 566		1 798		9 932		11 839		2 591	
1954	647		3 049		126		2 903		5 833		2 356		11 092		12 727		2 519	
1955	958		2 958		169		2 731		5 355		2 444		10 530		12 609		2 422	
	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956
Jan.	504	704	3 252	3 382	220	174	2 914	2 720	5 797	5 281	2 451	2 503	11 164	10 503	13 029	12 830	2 297	2 193
Feb.	488	576	3 280	3 650	279	192	2 932	2 732	5 798	5 264	2 497	2 500	11 227	10 496	13 162	12 874	2 267	2 152
Mar.	480	527	2 988	3 388	189	157	3 011	2 801	5 855	5 235	2 521	2 607	11 387	10 643	12 845	12 795	2 089	2 121
April	485	542	2 918	3 156	87	— 19	3 078	2 822	5 827	5 232	2 569	2 672	11 474	10 726	12 645	12 499	2 255	2 116
May	511	514	2 634	2 898	90	— 16	3 066	2 857	5 771	5 223	2 632	2 892	11 469	10 972	12 323	12 241	2 084	2 062
June	590	519	2 680	2 940	80	23	2 986	2 808	5 487	5 164	2 597	2 889	11 070	10 861	12 326	12 322	2 220	2 191
July	617	704	2 714	2 867	119	236	2 927	2 791	5 435	5 144	2 503	2 912	10 865	10 847	12 562	12 226	2 194	2 165
Aug.	544	661	3 033	3 185	119	317	2 893	2 635	5 448	5 085	2 548	2 843	10 889	10 563	12 715	12 824	2 227	2 118
Sept.	505	460	2 919	3 173	159	340	2 895	2 732	5 440	5 095	2 616	2 998	10 951	10 825	12 571	12 737	2 144	2 009
Oct.	719	604	3 289	3 579	157	397	2 767	2 689	5 380	5 082	2 445	2 864	10 592	10 635	12 723	13 184	2 263	2 349
Nov.	575	561	3 266	3 547	186	325	2 772	2 698	5 345	5 074	2 517	2 979	10 634	10 751	12 531	13 038	2 117	2 215
Dec.	958	788	2 958	3 295	169	437	2 731	2 613	5 355	5 088	2 444	2 937	10 530	10 638	12 609	13 090	2 422	2 666

¹ Including Treasury Bills.

III. OTHER CREDIT INSTITUTIONS. STOCK EXCHANGE

Year or Month	Savings Banks		Deposits at the Post Office Savings Bank ¹	Turnover of the Postal Cheque Service	Yields on Bonds ²		Turnover at the Stockholm Stock Exchange ³		Share index ^{2 4}							
	Deposits ¹	Advances ¹			Govt. Loans	Industrial Loans	Bonds	Shares	Home Industries	Other Industries						
	Million kr.	Million kr.			Million kr.	Million kr.	%	%	1 000 kr.	1 000 kr.						
1938	3 685	3 069	606	24 986	2,32	2,92	243	931	146	103						
1951	7 832	7 341	2 270	203 009	3,27	3,40	646	787	172	230						
1952	8 458	7 934	2 576	240 900	3,31	3,62	298	583	152	217						
1953	9 081	8 562	2 780	256 280	3,30	3,72	294	536	146	213						
1954	9 699	9 224	2 950	279 958	3,39	3,70	292	834	180	267						
1955	10 339	9 743	3 118	307 522	3,72	4,63	244	642	195	299						
	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956						
Jan.	.	.	3 065	3 244	3,36	3,74	3,81	4,65	373	310	883	533	205	185	305	287
Feb.	.	.	3 085	3 269	3,39	3,69	3,94	4,49	285	729	760	470	200	183	295	290
Mar.	10 199	10 919	9 545	9 948	3,40	3,67	4,03	4,46	305	347	1015	636	204	181	308	288
April	.	.	3 080	3 273	3,48	3,71	4,16	4,39	353	268	864	542	208	178	322	281
May	.	.	3 074	3 259	3,94	3,74	5,42	4,61	123	569	683	533	187	177	293	285
June	10 177	10 912	9 537	10 078	3,94	3,77	5,28	4,73	226	573	474	542	181	171	274	277
July	.	.	3 083	3 286	3,96	3,77	5,30	4,79	177	321	435	571	193	175	292	284
Aug.	.	.	3 099	3 301	3,88	3,77	4,68	4,76	159	364	407	519	197	176	296	291
Sept.	10 294	11 057	9 629	10 228	3,85	3,77	4,64	4,80	281	736	692	530	198	175	310	290
Oct.	.	.	3 105	3 323	3,80	3,79	4,60	4,91	234	364	474	508	193	172	301	275
Nov.	.	.	3 108	3 318	3,79	3,80	4,95	4,88	198	386	560	620	188	171	294	275
Dec.	10 339	9 743	3 118	3 315	3,79	4,10	4,78	4,96	209	226	473	558	187	171	296	272

¹ At the end of each year or month. — ² Calculated on market prices at middle of months. The yearly figures represent averages of the monthly figures. — ³ Averages per Stock Exchange business day. — ⁴ Nom. value Jan. 1953 = 100.

IV. OTHER STATISTICAL DATA.

Year or Month	National Debt ¹		Foreign Trade					Production Index 1935 = 100		Unem- ployment in the Trade Unions %		Wholesale Price Index (1935 = 100)						Cost of Living Index 1949 = 100		
			Imports	Exports	Export (+) or Import (-) Surplus	Import Goods	Export Goods					All Goods								
	Million kr.	Million kr.	Million kr.	Million kr.	Million kr.	Million kr.														
1938	2 566	2 082	1 843	— 239	123	10,9	111	120	111	64										
1951	12 823	9 184	9 225	+ 41	206	1,8	432	562	299	117										
1952	12 710	8 947	8 134	— 813	202	2,3	407	449	317	126										
1953	13 852	8 161	7 657	— 504	203	2,9	375	378	298	128										
1954	15 059	9 192	8 196	— 996	211	2,6	385	381	297	129										
1955	16 081	10 304	8 945	— 1 359	226	2,4	387	393	309	133										
	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956	1955	1956				
Jan.	15 287	16 035	844	938	707	814	—137	—124	223	231	.	.	386	401	388	404	300	322	129	137
Feb.	15 492	16 174	802	784	655	543	—147	—241	227	230	3,8	4,8	381	406	390	404	302	324	129	137
Mar.	14 815	15 884	926	802	584	558	—342	—244	227	242	.	.	380	406	390	403	304	326	130	138
April	15 168	16 157	892	1 018	662	744	—230	—274	240	242	2,0	2,8	381	404	391	403	305	327	131	138
May	14 525	15 497	835	980	744	897	— 91	— 83	234	244	.	.	382	405	392	401	307	326	131	139
June	14 524	15 477	810	964	774	974	—36	+ 10	234	240	1,4	1,5	383	408	393	398	308	329	131	139
July	14 726	15 732	727	880	750	923	+ 23	+ 43	213	126	.	.	384	405	393	399	313	325	133	139
Aug.	14 850	15 791	808	915	776	839	—32	—76	213	222	1,4	1,5	388	408	394	399	311	324	133	140
Sept.	14 690	15 674	874	961	776	935	—98	—26	233	245	.	.	393	408	395	398	312	323	134	139
Oct.	15 349	16 228	877	1 093	857	947	—20	—146	239	252	1,5	.	395	411	395	397	313	324	135	139
Nov.	15 368	16 327	992	1 098	866	978	—126	—120	247	253	.	.	395	419	395	398	317	325	137	141
Dec.	16 081	16 966	909	1 004	804	900	—105	—104	236	.	4,6	.	398	.	399	.	321	.	137	142

¹ At the end of each year or month.

SKANDINAVISKA BANKEN

Statement of Condition December 31st, 1956

ASSETS

Cash in hand and with the Riksbank	Kr. 217,641,000
Bonds and Treasury Bills	» 837,774,000
Loans and Discounts	» 2,643,939,000
Swedish Banks and Savings Banks	» 24,705,000
Banks abroad	» 159,370,000
Sundry Accounts	» 90,805,000
Shares	» 28,198,000
Buildings, Furniture and Fittings	» 49,994,000
	<u>Kr. 4,052,426,000</u>

LIABILITIES

Deposits	Kr. 3,232,326,000
Swedish Banks and Savings Banks	» 46,998,000
Banks abroad	» 86,848,000
Sundry Accounts	» 335,076,000
Share Capital	Kr. 194,112,000
Reserve Funds	» 124,416,000
Undivided profits	» 32,650,000
	<u>Kr. 4,052,426,000</u>

Branch Network of SKANDINAVISKA BANKEN

- Göteborg, Stockholm, Malmö
(Principal Offices)
- Place with 10 000 – 90 000 inhabitants
- • less than 10 000

In all 220 branches
at 167 different places.

